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NICARAGUA

Key Economic Indicators

(Millions of U.S. Dollars unless otherwise indicated)

	1999	2000	2001 1/
Income, Production and Employment:			
Nominal GDP 2/	2,267.0	2,364.5	2,435.4
Real GDP Growth (pct) 2/3/4	7.4	4.3	3.0
GDP by Sector: 2/			
Agriculture 4/	643.0	696.8	752.5
Manufacturing	643.0	660.2	660.0
Services 5/	825.1	852.1	878.2
Government	155.9	155.4	144.5
Per Capita GDP (US$)	459.0	466.0	468.0
Labor Force (000s)	1,728.9	1,815.3	1901.7
Unemployment Rate (pct)	10.7	9.8	10.3
Money and Prices (annual percentage growth):			
Money Supply Growth (M2)	18.8	-.5	7.4
Consumer Price Inflation (pct)1/	7.2	9.9	10.0
Exchange Rate (Cordobas/US$ - annual average)			
Official	11.8	12.7	13.5
Parallel	11.9	12.8	13.6
Balance of Payments and Trade			
Total Exports FOB 6/	545.2	645.1	640.0
Exports to United States 7/	493.0	590.0	625.0
Total Imports CIF 6/	-1,698.7	-1,647.7	-1700.0
Imports from United States 7/	-374.0	-379.0	-425.0
Trade Balance 6/	-1,153.5	-1002.6	-1,060.0
Balance with United States 7/	119.0	190.2	200.0
External Public Debt (US$ bns)	6.5	6.7	6.6
Fiscal Deficit/GDP (pct)	12.3	14.0	17.0
Current Account Deficit/GDP (pct)	48.2	36.9	36.8
Debt Service Payments/GDP (pct)	7.4	7.5	7.6
Gold and Foreign Exchange Reserves 8/	348.8	316.4	388.1
Aid from United States 9/	149.6	29.0	34.2
Aid from All Other Sources 10/	409.4	333.8	216.0

1/ Most 2001 figures are Central Bank projections based on data available in September 2001.
2/ GDP data is based on Embassy projection.
3/ Percentage changes calculated in local currency.
4/ Includes livestock, fisheries, and forestry.
5/ Includes construction and mining.
6/ Merchandise trade.
7/ Source: U.S. Department of Commerce; 2001 figures are estimates based on trade data through July 2001.
8/ Source: Central Bank figure from September 2001.
9/ Source: Embassy estimate of assistance from AID, USDA, and U.S. military for Hurricane Mitch relief.
10/ Includes debt forgiveness.

1. General Policy Framework

Nicaragua has made considerable progress since 1990 in moving from a centralized to a market-oriented economy. The country has liberalized its foreign trade regime, brought inflation under control, and eliminated foreign exchange controls. With the inauguration of President Arnoldo Aleman in January 1997, Nicaragua began to quicken the pace of its opening to foreign trade. The economy reached 7 percent growth in 1999 but slowed to 4.3 percent in 2000 as the Hurricane Mitch reconstruction boom subsided and some private investment decisions were postponed to await the outcome of November 2001 elections. To foster macroeconomic stability, the Aleman administration has adhered to structural adjustment programs with the International Monetary Fund (IMF). Nicaragua, with its huge debt of $6.7 billion, continues to seek forgiveness of the vast majority of its external debt under the Heavily Indebted Poor Countries (HIPC) Initiative.

At the end of its fifth year in office, the Aleman administration faced a series of economic challenges. In the span of one year (August 2000-August 2001), the government intervened in four local banks because of poor lending policies and apparent fraud. The drop in the international price of coffee—Nicaragua’s main export—exacerbated Nicaragua's economic slowdown and increased rural unemployment as many coffee producers reduced operations. Additionally, a large current account deficit and fiscal deficit continues to hamper the economy and are counterbalanced by strong inflows of foreign assistance. All of these factors have contributed to weak economic growth that, in turn, has inhibited poverty reduction. Due to poor economic performance, a significant amount of labor migration has occurred in recent years from Nicaragua to Costa Rica, raising tensions between the two countries.
Furthermore, unresolved property confiscation cases from the Sandinista era continue to hinder economic development.

Nicaragua is essentially an agricultural country with a small manufacturing base. The country is dependent on imports for most manufactured, processed, and consumer items. A member of the World Trade Organization, Nicaragua has reduced tariffs sharply and eliminated most nontariff barriers. Private investment, from both domestic and foreign sources, rose vigorously in 1999 and but declined in 2000. The primary focus of private investment has been hotels, housing, and commerce. Agriculture, construction, and the export sector have led Nicaragua's recent economic growth. The United States is Nicaragua's largest trading partner, with both exports and imports expanding in recent years.

2. Exchange Rate Policy

Since January 1993, the Nicaraguan government has followed a crawling-peg devaluation schedule. The cordoba to dollar rate is adjusted daily. The Government of Nicaragua in December 1999 reduced the devaluation rate of the cordoba to six percent per annum. A legal parallel exchange market supplies foreign currency for all types of exchange transactions. The spread between the official and parallel markets was slightly under one half of one percent in 2001. The government eliminated all significant restrictions on the foreign exchange system in 1996.

3. Structural Policies

Pricing Policies: The Nicaraguan government maintains price controls only on sugar, domestically produced soft drinks, certain petroleum products, and pharmaceuticals. However, in the past, the government has negotiated voluntary price restraints with domestic producers of important consumer goods. During the aftermath of Hurricane Mitch, the government instructed distributors of basic food products to maintain stable food prices. However, that control no longer exists.

Tax Policies: Nicaragua is in the process of progressive import tax reductions through the year 2002. Nicaragua imposes regular import duties (DAI) of 15 percent on 1,257 final consumption goods and a DAI of 5 percent on intermediate goods. Some 900 items are levied with a temporary protection tariff (ATP) of 5 to 10 percent, above the DAI. The maximum rate of the combined DAI and ATP on most items is 20 percent. A luxury tax is levied through the specific consumption tax (IEC) on 609 items. The tax generally is lower than 15 percent, with a few significant exceptions. The DAI and ATP taxes are based on CIF value. The IEC tax for domestic goods is based on the manufacturer's price, and for imported goods on CIF. Alcoholic beverages and tobacco products are an exception, in that the IEC is assessed on the price charged to the retailer. Nicaragua levies a 15 percent value added tax (IGV) on most items, except agricultural inputs. Import duties on so-called "fiscal" goods (e.g., tobacco, soft drinks, and alcoholic beverages) are particularly high. Some protected agricultural commodities such as corn and rice face special import tariffs of up to 55 percent. Cars with large engines (greater than 4000 cc) face an IEC tax of 25 percent, which has a discriminatory effect on larger U.S. vehicles. Vehicles with smaller engines are charged between zero and three percent IEC tax. Importers in general face a total import tax burden of 15 to 63 percent.

The Tax Justice Act of 1999, which placed Nicaragua ahead of the rest of Central American countries in lowering tariffs and reducing exemptions, established tax exemptions for nongovernmental organizations, hospital investments, and the agricultural, small handicraft, fishing, and aquaculture sectors. The importation of crude or partially-refined petroleum, liquid gas, and other petroleum derivatives were also exempted from some taxes. In April 2000, the National Assembly modified the Tax Justice Law to further reduce nominal luxury (IEC) taxes and to extend benefits enjoyed by cooperatives and the small business, agricultural, aquaculture and fishing sectors. Citing obligations to Nicaragua's Central American free trade partners, in May 2001, the Nicaraguan government raised the DAI tariff on most finished goods to 15 percent. Taxes on chicken products, mineral water, soft drinks, alcoholic beverages, cigars, and cigarettes were also increased.

Apart from regular tax policy, in December 1999, Nicaragua instituted a 35 percent tariff on all Honduran goods. The tax was imposed as a retaliatory measure for Honduras' signing of a maritime border agreement with Colombia that delineates areas to Honduras previously claimed by Nicaragua. Nicaragua has also implemented a 35 percent tariff on all Costa Rican and Colombian goods.

4. Debt Management Policies

With a foreign debt of more than $6 billion, Nicaragua has one of the highest per capita debts in the world. In March 1998, the IMF approved a structural adjustment program for Nicaragua. As part of the IMF program, the Nicaraguan government agreed to implement an aggressive policy directed at cutting the government fiscal deficit, implementing structural reforms, and maintaining overall monetary stability. The IMF and Nicaraguan government negotiated fiscal targets through December 2001, and the next government is expected to negotiate a new three-year IMF program in 2002.

Nicaragua should receive debt service relief in 2003 through the HIPC initiative. In December 2000, Nicaragua reached the HIPC Decision Point, which outlines actions to be taken by the Nicaraguan government to obtain debt forgiveness (worth approximately $4.5 billion). Under HIPC, Nicaragua's main creditors committed themselves to provide significant debt forgiveness when Nicaragua reaches the HIPC Completion Point. Reaching that stage will depend on the ability of Nicaragua to fulfill its commitments to the multilateral lending institutions and bilateral donor countries. One key requirement is the implementation of a coherent poverty reduction strategy.

5. Significant Barriers to U.S. Exports

Import Licenses: In most cases, the issuance of import licenses is a formality. Permits are required only for the importation of sugar, firearms, and explosives. U.S. exporters of food products must meet some phytosanitary and labeling requirements.

Services Barriers: After a series of bank failures, six private banks now operate in Nicaragua. No U.S. banks have established a presence in the country. Legislation passed in 1996 opened the insurance industry to private sector participation and four private insurance companies have been formed. No U.S. company has entered the Nicaraguan insurance market, either.

Investment Barriers: Remittance of 100 percent of profits and original capital (three years after investment) is guaranteed through the Central Bank at the official exchange rate for those investments registered under the Foreign Investment Law. Investors who do not register their capital may still make remittances through the parallel market, but the government will not guarantee that foreign exchange will be available. The U.S. Embassy is aware of no investor who has encountered remittance difficulties since the inception of the Foreign Investment Law in 1991. The fishing industry remains protected by requirements involving the nationality and composition of vessel crews, and a requirement for domestic processing of the catch. Expropriations from the Sandinista era remain an impediment to investment, as land titling is often unclear. In 2000, the government opened new property tribunals to help address this issue.

Customs Procedures: Importers complain of steep secondary customs costs, including customs declaration form charges and consular fees. In addition, importers are required to utilize the services of licensed customs agents, adding further costs. Nicaragua had been scheduled to implement WTO customs valuation procedures in September 2000, however it continues to use reference prices to determine import tax valuations. Implementation of the WTO standards is reportedly awaiting the publication of applicable regulations in the national registry.

Private Property Rights: The need to resolve thousands of cases of homes, businesses and tracts of land confiscated without compensation by the Sandinista government during the 1980s remains a divisive issue in Nicaragua. The Nicaraguan government has made the resolution of these cases a priority. Nonetheless, potential investors must carefully verify property titles before purchase.

In 1996, Nicaragua ratified the United States-Nicaragua Bilateral Investment Treaty that is designed to improve protection for investors. The treaty has been submitted to but not yet ratified by the U.S. Senate.

6. Export Subsidy Policies

All exporters receive tax benefit certificates equivalent to 1.5 percent of the FOB value of the exported goods. Legislation passed in 2000 provides for a 37-cent tax rebate on every exported pound of trawled shrimp and 7 cent rebate on every pound of farmed shrimp exported. Foreign inputs for Nicaraguan export goods from the country’s free trade zones enter duty-free and are exempt from value-added tax.

7. Protection of U.S. Intellectual Property

Nicaragua belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). It is signatory to the Paris Convention, Mexico Convention, Buenos Aires Convention, Inter-American Copyrights Convention, Universal Copyright Convention, and the Satellites Convention.

The government has indicated a firm commitment to providing adequate and effective intellectual property rights protection. While current levels of protection still do not meet international standards, progress has been made in recent years. Although unable to dedicate extensive resources to protecting intellectual property rights (IPR), Nicaragua is working to modernize its intellectual property rights regime. In January 1998, Nicaragua and the United States signed a bilateral IPR agreement covering patents, trademarks, copyright, trade secrets, plant varieties, integrated circuits, and encrypted satellite signals. In 1999, the National Assembly approved a new copyright law, a plant variety protection law, a law on the protection of satellite signals, and a law on integrated circuit design. In 2000, the Assembly passed a new law on patents, followed by passage of a modern law on trademarks in 2001.

Trademarks: Protection of well-known trademarks is a problem area for Nicaragua. Current procedures allow individuals to register a trademark without restriction for a renewable 10-year period at a low fee.

Copyrights: Despite decreasing over the past year, pirated videos are still widely available in video rental stores nationwide, as are pirated audiocassettes and software. Increasingly fewer cable television operators intercept and retransmit U.S. satellite signals, though the practice persists despite a trend of negotiating contracts with U.S. sports and news satellite programmers. In August 1999, a new copyright law went into effect; however, criminal penalties were delayed for 6-12 months. Video and audiocassette pirates as well as small cable operators asked the National Assembly for additional extensions, but the National Assembly denied them. Since passage of the law, the U.S. government and industry have worked with the Nicaraguan government to provide training for effective enforcement. In May 2001, the first raid on vendors of pirated material was made at the largest market in Managua with several arrests and a large amount of merchandise seized.

8. Worker Rights

a. The Right of Association: The Constitution provides for the right of workers to organize voluntarily in unions. The 1996 labor code reaffirmed this right. Less than half of the formal sector workforce, including agricultural workers, is unionized, according to labor leaders. The Constitution recognizes the right to strike. Unions freely form or join federations or confederations, and affiliate with and participate in international bodies.

b. The Right to organize and Bargain Collectively: The Constitution provides for the right to bargain collectively. According to the 1996 labor code, companies engaged in disputes with employees must negotiate with the employees' union if they are organized.

c. Prohibition of Forced or Compulsory Labor: The Constitution prohibits forced or compulsory labor. There is no evidence that it is practiced.

d. Minimum Age for Employment of Children: The Constitution prohibits child labor that can affect normal childhood development or interfere with the obligatory school year. The 1996 labor code raised the age at which children may begin working with parental permission from 12 to 14. Parental permission is also required for 15 and 16 year-olds. The law limits the workday for such children to six hours and prohibits work at night. However, because of the economic needs of many families and lack of effective government enforcement mechanisms, child labor rules are rarely enforced, except in the formal sector of the economy.

e. Acceptable Conditions of Work: The 1996 labor code maintains the constitutionally mandated eight hour workday. The standard legal workweek is a maximum of 48 hours, with one day of rest. The 1996 code established that severance pay be equivalent to one to five months' salary, depending on the circumstances of termination and the length of employment. The code also seeks to bring the country into compliance with international standards of workplace hygiene and safety, but the Ministry of Labor lacks adequate staff and resources to enforce these provisions. Minimum wage rates were raised in November 1997, and increased further in August 1999, but the majority of urban workers earn well above the minimum rates.

f. Rights in Sectors with U.S. Investment: Labor conditions in sectors with U.S. investment do not differ from those in other sectors of the formal economy.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 2000

(Millions of U.S. Dollars)

Category	Amount	
Petroleum		(D)
Total Manufacturing		5
Food & Kindred Products	0	
Chemicals & Allied Products	(D)	
Primary & Fabricated Metals	(D)	
Industrial Machinery and Equipment	0	
Electric & Electronic Equipment	0	
Transportation Equipment	0	
Other Manufacturing	0	
Wholesale Trade		4
Banking		0
Finance/Insurance/Real Estate		0
Services		0

Other Industries	(D)
TOTAL ALL INDUSTRIES	179

(D) Suppressed to avoid disclosing data of individual companies.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.